

## Increasing Rate of Foreclosures Upsets Atlanta

By Vikas Bajaj (The New York Times)

ATLANTA — Despite a vibrant local economy, Atlanta homeowners are falling behind on mortgage payments and losing their homes at one of the highest rates in the nation, offering a troubling glimpse of what experts fear may be in store for other parts of the country.

The real estate slump here and elsewhere is likely to worsen, given that most of the adjustable rate mortgages written in the last three years will be reset with higher interest rates, said Christopher F. Thornberg, an economist with Beacon Economics in Los Angeles. As a result, borrowers of an estimated \$800 billion in loans will be forced in the next 12 months to 18 months to make bigger monthly payments, refinance or sell their homes.

A big reason the fallout is occurring faster here is a Georgia law that permits lenders to foreclose on properties more quickly than in other states. The problems include not just people losing their homes, but also sharp declines in property values, particularly in lower-income and working-class neighborhoods.

For example, a three-bedroom house near Turner Field, where the Atlanta Braves baseball team plays, fetched a high bid late last month of \$134,000 at an auction by the bank that took possession of it. Almost three years ago, the new home was bought for \$330,000.

While the surge in foreclosures in other big cities like Cleveland, New Orleans and Detroit can be attributed to local economic challenges, Atlanta more closely reflects the nation. Its unemployment rate, 4.9 percent in May, is low and close to the national average of 4.5 percent. And businesses here are adding jobs, albeit at a slower pace than they were last year.

Like others across the country, homeowners here took out aggressive mortgages in the last few years when interest rates were low and housing prices were soaring. Now many are falling behind — some have lost jobs or experienced other financial difficulties, but many others are not able to refinance because their homes are worth less than they paid for them and their credit is now too weak for them to qualify for another loan.

So far, the pain has been limited to those on the financial margins, but as more loans are reset to higher rates and home prices continue to slide, more homeowners will be unable to meet rising payments or to refinance. “This is a process that is starting low and will go high,” said Mr. Thornberg, the economist in Los Angeles.



Atlanta also serves as a microcosm for some broader national trends: wages have been stagnant for much of this decade, homeowners have taken on record amounts of debt, and mortgage fraud has been on the rise.

“We are a very affordable place,” said Mike Alexander, the chief of research at the Atlanta Regional Commission, an organization that serves local governments. “But our incomes are very low, and if anything went wrong, it would be very hard for people to maintain their homes.”

An estimated 2.7 percent of all housing units in the region were in foreclosure at the end of last year, up from 1.1 percent in 2000, according to an analysis by the commission. Nationally, less than 1 percent of all housing units were in foreclosure, according to data from the Mortgage Bankers Association and the Census Bureau.

Though Atlanta has added jobs in recent years, they pay less than the jobs the region lost after the technology boom of the late 1990s ended. The median household income was only 7.6 percent higher in 2005 than in 2000, according to the Census Bureau. That is about half the rate of inflation during that period, and it mirrors what has occurred nationally.

While wages have languished, average Atlanta families are shouldering more debt. As of March, residents had bigger credit card balances, mortgages and car loans relative to their income than average Americans, according to data compiled by Moody’sEconomy.com. And the equity that Atlanta residents have in their homes — the value of their house minus what they owe — has dropped 14 percent since peaking in late 2005.

By comparison, in California — the state where mortgage lending was most aggressive, real estate prices climbed fastest and homeowners have the highest debt burdens — home equity values have dropped about 10 percent from their peak in 2005.

Georgia’s foreclosure laws have also accelerated a process that can drag on for months in legal proceedings in other states. Lenders can declare a borrower in default and reclaim a house in as little as 60 days.

“Because of the foreclosure laws, it may be that people go from delinquency into foreclosure much more quickly in Georgia,” said Mark Zandi, chief economist at Moody’s Economy.com.

That still would not explain why so many people fall behind on house payments in the first place.



At the end of March, 6 percent of all mortgages in Georgia were more than 30 days past due, the fourth-highest rate in the nation, according to the Mortgage Bankers Association. Mississippi, Louisiana and Michigan had more loans past due.

Rajeev Dhawan, an economics professor at Georgia State University, has started studying the characteristics of loans on homes that are in foreclosure. His preliminary analysis of data from April shows that nearly half were for adjustable rate mortgages and many were issued in the last two years.

“Everybody thought if the home prices kept going up, the lenders will keep refinancing you,” he said.

In recent years, industry groups and law enforcement agencies have also cited Atlanta for being home to some aggressive mortgage fraud schemes. It may have been an easier target because the prices of homes in the same neighborhood can vary greatly here, making it easier to inflate appraisals.

Auctions for a dozen homes conducted one day in late June across the Atlanta area — from gritty inner-city neighborhoods to the affluent suburb of Marietta — provide a window into how the real estate slump is playing out here.

The most prized property on offer that day was a stately four-bedroom brick home in Marietta that sits on a tree-covered lot measuring three-quarters of an acre. It fetched a high bid of \$646,000, about \$60,000 more than the last mortgage on the property. More than 200 people turned up at the auction, and the winning bidders were a young couple, Cameron and Jamie Clayton, who are expecting a second child this year.

“I wouldn’t say it is a steal,” said Mr. Clayton, who is an executive at The Weather Channel. “We paid the same price we would have paid on the market, maybe more.”

But about 25 miles south, an auction for the three-bedroom home near Turner Field produced a starkly different result. Corey Neureuther, a 29-year-old accountant, was the winning bidder. He said it was his first real estate investment and he was surprised that others did not bid the price up at the auction, which drew about 30 people. Having recently moved to Atlanta from New York, he said he became interested in buying property after learning about foreclosures in the area.

“I thought for sure it would sell for \$200,000 plus,” he said. Mr. Neureuther said he thought that he could make money by renting out the house.



Stephanie Calhoun, the former owner of the home, could not be reached for comment. Property records show she took out two loans to finance 100 percent of the purchase price. She borrowed the money from Ownit Mortgage Solutions, a California company that sought bankruptcy protection in December after many of its customers defaulted on their loans. Investors who bought bonds backed by Ownit loans will bear the loss on her home.

Dean Williams, the president of Williams & Williams, the firm that conducted the auctions, said results of the sales in Atlanta and elsewhere in the country showed that real estate prices were inflated during the recent boom, especially in less affluent areas.

“When you find out what the market price really is, it can be a joke,” said Mr. Williams, whose family-owned firm is based in Tulsa, Okla.

Economists say auctions are generally the most efficient way to determine prices. But only about 1 percent of residential real estate sold in the country last year by dollar value was auctioned.

Most sellers still list homes and wait until they get an offer close to their asking price. At the end of March, 2.8 percent of all owner-occupied homes nationally were vacant and for sale, up from 1.8 percent at the start of 2005. That is the highest vacancy rate in the 51 years the Census Bureau has been tracking it.

But as more homes end up in the hands of banks and trustees for mortgage bonds — who are typically looking to minimize losses — auctions may play a bigger role.

Mark Rollins bought a house southwest of downtown Atlanta for \$78,000 at one of the Williams & Williams auctions. The property sold for \$255,000 in summer 2004. Mr. Rollins, who is a Realtor, said he planned to live in the house for a couple of years, fix it up and resell it for \$150,000 when the market recovered.

Why did the house sell for so much more in 2004? Mr. Rollins has a simple theory: “The market was hot, the interest rates were low, and they were giving all kinds of deals to people.”